

## Message Text

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ACTION EB-07

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EO 11652: ADS 12/31/75

TAGS: EAID, NL, ID, OVIP (POSTHUMUS, G A)

SUBJ: VISIT OF DUTCH DEVELOPMENT ASSISTANCE OFFICIAL

REF: THE HAGUE 0041

1. POSTHUMUS VISIT PRESENTS RISKS AND OPPORTUNITIES WHICH WARRANT CAREFUL CONSIDERATION ON US SIDE.

2. WITH RESPECT TO FORMER WE WOULD PARTICULARLY WANT TO AVOID DIVULGING DETAILED STATUS OF CONSIDERATION FUTURE US ECONOMIC ASSISTANCE TO INDONESIA OR SUGGESTING THAT WE ARE LOSING INTEREST IN INDONESIAN DEVELOPMENT EFFORT. IT WOULD BE MOST INAPPROPRIATE FOR INDONESIANS OR OTHER IGGI DONORS TO HEAR ABOUT US AID INTENTIONS THROUGH DUTCH CHANNELS. INSTEAD WE SHOULD EXPRESS CONTINUING CONCERN WITH INDONESIAN DEVELOPMENT PROBLEMS, REAFFIRM INTENTION TO ATTEND UPCOMING IGGI MEETING WITH A VIEW LEARNING AS MUCH AS POSSIBLE FROM GOI AND IBRD/IMF REPORT ABOUT FINANCING REQUIREMENTS AND SUBSTANTIVE EMPHASIS DEVELOPMENT PROGRAM UNDER PRESENT CIRCUMSTANCES. CANDOR OF COURSE REQUIRES RECOGNITION THAT AID-GIVING CLIMATE IMPORTANTLY CHANGED BY OIL REVENUES BUT EXPLANATION SHOULD STOP SHORT OF SPECIFIC DETAILS BEYOND FY 75 DL LEVEL WHICH ALREADY CONVEYED TO GOI.

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3. CONSULTATIONS WITH POSTHUMUS ALSO OFFER CHANCE TO DISCUSS WAYS OF SHAPING APRIL IGGI MEETING ALONG DESIREABLE LINES. WE WOULD HOPE GOI WILL RECOGNIZE THAT ITS INTERESTS WILL NOT BE SERVED BY ADHERENCE TO PAST FORMAT UNDER WHICH QUANTIFIED AID TARGET ESTABLISHED AND PLEDGES SOUGHT. THIS ARRANGEMENT HIGHLY SERVICEABLE IN PAST BUT NOT APPROPRIATE PRESENT CIRCUMSTANCES IN WHICH IBRD LENDING TARGETS GREATLY INCREASED, EXPORT CREDITS BEING SOUGHT AND NEW SOURCES FINANCING FROM OTHER OIL (EG IRAN) AND SOCIALIST COUNTRIES BEING EXPLOITED.

THUS WE SEE APRIL SESSION PRIMARILY AS (A) FORUM FOR INFORMATION-SHARING AND PROVIDING MEMBERS OPPORTUNITY DEVELOP FACTUAL FRAMEWORK IN WHICH CONSIDER ENTIRE RANGE OF AID AND FINANCING DECISIONS RE INDONESIA: AND (B) OPPORTUNITY FOR INTERNATIONAL AGENCIES AND BILATERAL DONOR MEMBERS ENGAGE GOI IN CONSTRUCTIVE DISCUSSIONS OF INDONESIAN DEVELOPMENT PERFORMANCE AND PLANS WHICH WILL PRESUMABLY BE HELPFUL TO WIDJOJO IN MAINTAINING DISCIPLINE WITH RESPECT TO THE QUALITY AND BALANCE OF INVESTMENT PROGRAMS.

4. BELIEVE POSTHUMUS VISIT OFFERS OPPORTUNITY TO FIND OUT WHETHER DUTCH SEE APRIL IGGI SESSION IN SIMILAR LIGHT. IN CONNECTION WITH SECOND FUNCTION--POINT (B) IN PARA 3 ABOVE--VISIT ALSO OFFER CHANCE EXPLORE HOW DUTCH WOULD REACT TO INCLUDING FOLLOWING TOPICS AGENDA OF NEXT IGGI MEETING: (A) IN BROAD POLICY TERMS REPLITA II EMPHASIZES IMPROVEMENTS IN EQUITY AND OPPORTUNITY FOR THE POOR MAJORITY. ARE THESE EMPHASSES SUFFICIENTLY REFLECTED IN PLAN ALLOCATIONS AND TARGETS? SPECIFICALLY, IF PROPOSALS FOR SOCIAL PROGRAMS, RURAL DEVELOPMENT, FOOD PRODUCTION AND THE LIKE ARE IMPLEMENTED ACCORDING TO PLAN, WILL THERE BE SIGNIFICANT IMPACT ON EMPLOYMENT GENERATION AND MORE EQUITABLE DISTRIBUTION OF INCOME AND BEFEFITS?

(B) TO WHAT EXTENT SHOULD THE REPLITA II PROGRAMS AND TARGETS BE MODIFIED IN LIGHT OF INDONESIA'S IMPROVED FINANCIAL SITUATION AND PROSPECTS? SPECIFICALLY, INSOFAR AS THERE HAS BEEN AND WILL BE AN INCREMENT IN RESOURCE AVAILABILITIES ABOVE WHAT HAD BEEN ANTICIPATED WHEN THE PLAN WAS FORMULATED, HOW SHOULD THE INCREMENT BE DIRECTED TO IMPROVING THE LOT OF THE POOREST EMBERS OF SOCIETY?

(C) WHAT SHOULD BE THE NATURE OF THE IGGI'S INVOLVEMENT WITH FINANCING THAT IS PUBLICLY SUPPORTED BUT NOT STRICTLY CONCESIONAL IN NATURE (EG EXIM)? OUR OWN OPINION IS THAT THE IGGI

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SHOULD CONCERN ITSELF WITH ALLOF THE ELEMENTS OF THE GOI DEVELOPMENT PROGRAM--REGARDLESS OF HOW THEY MAY BE FINANCED. HOWEVER, THIS CONCERN SHOULD BE IN THE CONTEXT OF EXAMINING DEVELOPMENTAL ISSUES SUCH AS: DOES THE DEVELOPMENT PROGRAM CONSIT OF THE PROJECTS AND PROGRAMS WITH THE HIGHEST PRIORITY--REGARDLESS OF THE TERMS OF FINANCING? (WE QUESTION WHETHER ADEQUATE EVALUATION AND PLANNING HAVE BEEN UNDERTAKEN IN A NUMBER OF INSTANCES AND SUSPECT THIS MAY BE A MORE GENERAL PROBLEM.) IS THE MAGNI-

TUDE OF AND ARE THE SOURCES OF FINANCING FOR THE GOI DEVELOPMENT PROGRAM CONSISTENT WITH DESIRED MONETARY AND INFLATIONARY OBJECTIVES? (INITIAL ANALYSIS OF THE GOI BUDGETS FOR GOI FY 1974/75 AND 1975/76 INDICATE THEY ARE UNEXPECTEDLY INFLATIONARY IN NATURE). THE TERMS OF FOREIGN FINANCING OF THE GOI DEVELOPMENT PROGRAM (AND OF PUBLIC ENTERPRISE DEBT GUARANTEED BY THE GOI) SHOULD BE OF INTEREST TO THE IGGI AS A PART OF THE BROADER QUESTION: IS THE TIME PROFILE OF INDONESIA'S FOREIGN DEBT COMPATIBLE WITH THE EXPECTED EVOLUTION OF INDONESIA'S BALANCE OF PAYMENTS?

5. WE EXPECT OFFER ADDITIONAL SUGGESTIONS FOR AGENDA AND TALKING POINTS FOR US DELEGATION AS TIME OF MEETING DRAWS CLOSER, BUT FOREGOING WILL SERVE AS EXAMPLES OF SUBSTANTIVE POLICY AND PROGRAM ISSUES WHICH WE BELIEVE SHOULD BE MAIN FOCUS OF APRIL SESSION AND CAN BE USEFULLY DISCUSSED WITH POSTHUMUS. NEWSOM

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